MULTIMEDIA UNIVERSITY

SUPPLEMENTARY EXAMINATION

TRIMESTER 1, 2015/2016

PPE0045 – PRINCIPLES OF MACROECONOMICS
(Foundation in Management)

18 NOV 2015
9.00 AM – 11.00 AM
(2 HOURS)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **THIRTEEN (13)** pages.

2. Answer **ALL** questions in Sections A and B.

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [50 MARKS]

Instructions: Answer **ALL** questions in this section. Shade the answers on the **OMR** sheet.

1. If exports rise and imports fall, then _____.
   A. GDP will increase
   B. GDP will decrease
   C. net exports will fall
   D. GDP may remain unchanged

2. Which of the following illustrates double counting?
   A. counting the value of final goods only
   B. counting the value of intermediate goods only
   C. counting the value of intermediate goods and final goods
   D. counting the value of used car sales when measuring GDP

3. The market value of all final goods and services in an economy produced by resources owned by people of that economy, regardless of where the resources are located, is called _____.
   A. national income
   B. net national product
   C. gross national product
   D. gross domestic product

4. GDP overstates our economic well-being in which one of the following cases?
   A. when people pollute the environment
   B. when household production is ignored
   C. when there are technological improvements
   D. when the production of legal goods is hidden to avoid taxes

5. The negative slope of the aggregate demand curve is caused by _____.
   A. the real wealth effect, the interest rate effect, and the real GDP effect
   B. the real wealth effect, the interest rate effect, and the price level effect
   C. the real wealth effect, the interest rate effect, and the exchange rate effect
   D. the real wealth effect, the money supply effect, and the exchange rate effect

6. Suppose consumption is RM10,000 when income is RM8,000 and the marginal propensity to save equals 0.3. When income increases to RM8,500, consumption will be _____.
   A. RM9,800
   B. RM10,350
   C. RM10,800
   D. RM10,200

Continued...

7. Automatic stabilisers refer to _____.
   A. the money supply and interest rates that automatically increase or decrease along with the business cycle
   B. government spending and taxes that automatically increase or decrease along with the business cycle
   C. changes in federal taxes and purchases that are intended to achieve macroeconomic policy objectives
   D. changes in the money supply and interest rates that are intended to achieve macroeconomic policy objectives

8. If the economy spends 90 percent of any increase in national income, then an increase in investment of RM10 million would result ultimately in an increase in national income of _____.
   A. RM0
   B. RM9 million
   C. RM10 million
   D. RM100 million

9. Suppose the economy is at the position above the full employment level of national income. In response to this situation, economists would propose that government enact _____ fiscal policy to correct this _____ gap by _____ government purchase.
   A. expansionary; recessionary; increasing
   B. contractionary; inflationary; increasing
   C. contractionary; inflationary; decreasing
   D. contractionary; recessionary; decreasing

10. The size of the multiplier depends on the _____.
    A. level of investment
    B. the level of equilibrium output
    C. marginal propensity to consume
    D. all of the above are true

11. If there is no one who is interested in borrowing from a bank, _____.
    A. the bank's excess reserves will be zero
    B. there will be no process of money creation
    C. the legal reserve requirement must be equal to zero
    D. the legal reserve requirement must be equal to 100 percent

<div align="right">**Continued...**</div>

12. The balance sheet for a commercial bank shows the bank's _____ .
    A. loans as assets and checking deposits as liabilities
    B. demand deposits as assets and loans as liabilities
    C. loans as assets and required reserves as liabilities
    D. required reserves as assets and excess reserves as liabilities

13. If your bank receives a checking deposit of RM20,000, and makes the maximum
    loan possible of RM18,000, then the potential money multiplier must be

    _____ .
    A. 0.1
    B. 0.9
    C. 10
    D. none of the above

14. When the discount rates fall, the cost _____ .
    A. of loans between banks falls
    B. of loans to bankers' best customers goes down
    C. to banks of borrowing from the central bank falls
    D. to savings and loans of borrowing money from the public falls

15. Which of the followings is **NOT** a motive for holding money?
    A. the asset motive
    B. the transaction motive
    C. the speculative motive
    D. the precautionary motive

16. Assuming that the money market is in equilibrium. Now there is a contraction in
    the money supply. This will cause the interest rate to _____ and the
    quantity of money demanded to _____ .
    A. increase; increase
    B. decrease; increase
    C. decrease; decrease
    D. increase; decrease

17. An open market purchase _____ .
    A. increases the money supply
    B. decreases the money supply
    C. doesn't change the money supply
    D. has an indeterminate effect on the money supply

Continued...

18. Which list contains only actions that decrease the money supply?
    A. raise the discount rate, make open market sales
    B. lower the discount rate, make open market sales
    C. lower the discount rate, make open market purchases
    D. raise the discount rate, make open market purchases

19. Which of the following is included in the M2 definition of the money supply?
    A. Time deposits.
    B. Credit cards.
    C. Corporate bonds.
    D. None of the above.

20. According to the quantity theory of money, if an economy produces 5,000 units
    of output, its money supply equals RM40,000 and velocity of money equals one,
    then the price level will equal _____.
    A. RM8
    B. RM200
    C. RM0.13
    D. RM1.25

21. Suppose that currently the average inflation rate is 5% per year; however,
    business firms and labour anticipate that the general price level will increase by
    substantially more than the 5% over the next two years. Other things constant,
    these expectations can cause _____.
    A. a decrease in the rate of inflation
    B. an acceleration of the rate of increase in the price level
    C. an increase in the productivity of business firms and labour
    D. no actual change in the price level but an increase in the level of
       unemployment

22. Cost-push inflation exists when _____.
    A. potential output is growing faster than real GDP
    B. real GDP is increasing faster than potential GDP
    C. consumers use their market power to push up prices
    D. resources owners use their market power to push up prices

23. An increase in the price index from 200 in year 1 to 205 in year 2 indicates a
    _____.
    A. 5% rate of inflation between year 1 and 2
    B. 2.5% rate of inflation between year 1 and 2
    C. 105 % rate of inflation between year 1 and 2
    D. none of the above

24. When the inflation rate falls, the purchasing power of nominal income
    _____.
    A. increases
    B. decreases
    C. remains unchanged
    D. none of the above

25. If the inflation rate exceeds the nominal rate of interest, _____.
    A. savers lose
    B. lenders lose
    C. the real interest rate is negative
    D. all of the above

26. Which of the following is **NOT** the direct control to overcome inflation?
    A. Rationing
    B. Price pegging
    C. Reduce money supply
    D. Anti-hoarding campaign

27. People who are willing and able to work but are not looking for work are
    considered _____.
    A. unlucky
    B. employed
    C. unemployed
    D. not in the labour force

28. The natural rate of unemployment is the rate of unemployment that exists when
    there is only _____.
    A. frictional unemployment
    B. frictional and cyclical unemployment
    C. structural and cyclical unemployment
    D. frictional and structural unemployment

29. Who would be included in the labour force?
    A. Karen, who works most of the week in a steel factory.
    B. Beth, who is waiting for her new job at the bank to start.
    C. Dave, who does not have a job, but is looking for work.
    D. All of the above are included in the labour force.

30. The Phillips curve relates the inflation rate to the _____.
    A. GDP
    B. interest rate
    C. unemployment rate
    D. disposable personal income

Refer to *Exhibit 1* for questions no.31 and 32.

Labour force participation rate	65%
Total population 16 years of age and older	210 million
Unemployment rate	5%

Exhibit 1

31. Refer to *Exhibit 1*. The labour force _____.
    A. equals 150 million
    B. equals 75.5 million
    C. equals 136.5 million
    D. cannot be determined from this information

32. Refer to *Exhibit 1*. The total population _____.
    A. is 210 million
    B. is 250.5 million
    C. is 130.65 million
    D. cannot be determined from this information

33. When countries _____ in producing goods in which they have a(n) _____ advantage, they _____ their combined output and allocate their resources _____ efficiently.
    A. specialise; absolute; minimise; more
    B. specialise; comparative; maximise; less
    C. specialise; comparative; maximise; more
    D. do not specialise; comparative; maximise; less

34. Which of the following statements is **TRUE**?
    A. a tariff is a tax on exports
    B. a quota is usually a limit on the quantity of exports
    C. a quota is usually a limit on the quantity of imports
    D. an import subsidy is a government payment made to domestic firms to encourage exports

35. The combination of goods a nation can consume after trade and specialisation begins is illustrated by the _____ curve.
    A. supply
    B. demand
    C. production possibilities
    D. consumption possibilities

Continued...

36. The terms of trade is the _____.
    A. exchange rate for two nations
    B. opportunity costs of production
    C. trade negotiations between nations
    D. rate at which two goods will be exchanged
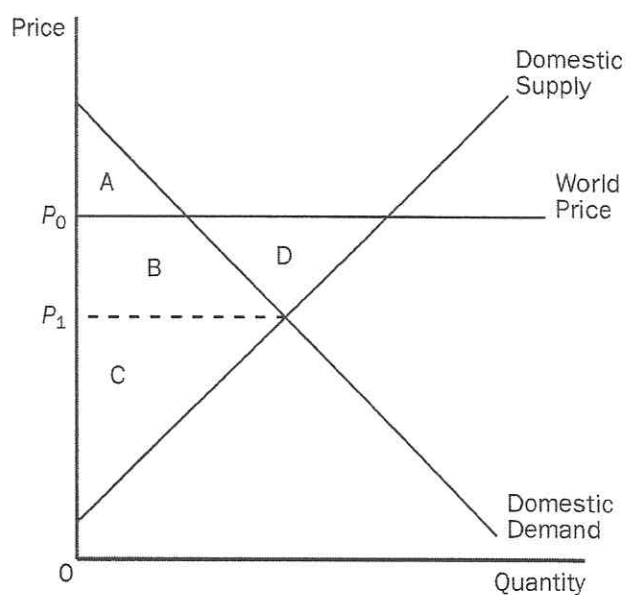
Refer to *Exhibit 2* for questions no. 37 and 38.

Exhibit 2

37. According to *Exhibit 2*, consumer surplus in Country A before trade is

    _____.
    A. A
    B. C
    C. A+B
    D. A+B+D

38. According to *Exhibit 2*, total surplus in Country A after trade is _____.
    A. A+B
    B. A+B+C
    C. B+C+D
    D. A+B+C+D

Continued...

39. Suppose the world price were below the before trade domestic price for a good, and if a country allows free trade in this good, _____.
   A. both producers and consumers will gain
   B. both producers and consumers will lose
   C. producers will gain and consumers will lose
   D. consumers will gain and producers will lose

40. Producers' surplus is the difference between the price _____ receive for a good and the _____ price for which they would have _____ the good.
   A. sellers; maximum; sold
   B. sellers; minimum; sold
   C. buyers; maximum; bought
   D. sellers; minimum; bought

41. Fauzi, a student in Multimedia University, Malaysia, is from Indonesia. When his parents in Indonesia, send him 1,000,000 Rupiah, the money is treated as a(an) _____.

   A. unrequited transfer, shown as a Rupiah outflow in the Indonesia balance of payments accounts
   B. current account transfer, shown as a Rupiah inflow in the Indonesia balance of payments account
   C. capital account payment, shown as a Rupiah inflow in the Indonesia balance of payments account
   D. unrequited transfer, shown as a Ringgit Malaysia outflow in the Malaysia balance of payments account

42. The part of the balance of payments that adjusts for missing information is called the _____.
   A. basic reconciliation
   B. tentative settlement
   C. provisional adjustment
   D. statistical discrepancy

43. The three major components of the current account are _____.
   A. merchandise exports, merchandise imports, and net unilateral transfers abroad.
   B. outflow of US foreign capital, inflow of foreign capital, and statistical discrepancy.
   C. exports of goods and services, imports of goods and services, and net unilateral transfers abroad.
   D. exports of goods and services, imports of goods and services, and inflow of foreign capital.

Continued...

44. If a Malaysia citizen purchases a US bond, in the US balance of payments capital
    _____.
    A. inflow will be credited
    B. inflow will be debited
    C. outflow will be credited
    D. outflow will be debited

45. Which of the following is **NOT** included in the U.S. capital account?
    A. income received on investments
    B. change in private U.S. assets abroad
    C. change in foreign private assets in the United States
    D. change in foreign government assets in the United States

46. Which of the following examples illustrate a depreciation of the U.S. dollar?
    A. the dollar exchanges for 8 Pula and then exchanges for 6 Pula
    B. the dollar exchanges for 180 Yen and then exchanges for 250 Yen
    C. the dollar exchanges for 180 Naira and then exchanges for 199 Naira
    D. the dollar exchange for 0.375 Bahrain Dinar and then exchanges for 0.390
       Bahrain Dinar

47. Under a fixed exchange rate system, a central bank _____.
    A. will ignore movements in exchange rates
    B. must use its foreign currency holdings to buy and sell its currency to smooth
       out the currency demand
    C. must use its foreign currency holdings to buy and sell its currency to exactly
       match changes in currency demand
    D. none of the above

48. The foreign exchange market is the market in which _____.
    A. foreigners buy US real estate
    B. foreign stocks and bonds are bought and sold
    C. ideas from different countries are exchanged
    D. currencies of different countries are bought and sold

49. According to purchasing power parity theory, if it takes RM4 to buy a packet of
    salt in Malaysia where as it takes USD1 to buy a packet of salt in the United
    States, then _____.
    A. the law of one price no longer holds
    B. transportation costs must no longer be small
    C. the equilibrium exchange rate should be RM4 per dollar
    D. none of the above

Continued...

50. A "devaluation" occurs when _____ .
      A. the official price of a currency is raised.
      B. the official price of a currency is lowered.
      C. a nation's currency depreciates under a flexible exchange rate system.
      D. a nation's currency appreciates under a flexible exchange rate system

SECTION B: STRUCTURED QUESTIONS [50 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Exhibit 3 depicts the balance sheet of Bank of Faith.

Bank of Faith			
Assets	RM	Liabilities	RM
Reserves	20,000	Deposits	100,000
Loans	80,000		

Exhibit 3

Refer to *Exhibit 3*,

a) if the required reserve ratio is 10%, how much is the excess reserve of Bank of Faith?

(3 marks)

b) if the required reserve ratio is 10%, how much of new loans can Bank of Faith make?

(1 mark)

c) assuming that Bank of Faith is holding only the amount of reserves that it is required,

    i.   what is the required reserve ratio?

(1.5 marks)

    ii.   with the required reserve ratio obtained in (i), what is the value of money multiplier?

(1.5 marks)

    iii.   with the deposit of RM100,000, what is the total increase in money supply?

(1.5 marks)

    iv.   what is the amount of money created?

(1.5 marks)

Continued...

Part B

a) Briefly explain the meaning of transaction demand for money?

(2 marks)

b) What are the goals of monetary policy?

(3 marks)

[TOTAL 15 MARKS]

Question 2

The countries of East Zakovia and West Zakovia have the production possibilities tables for tobacco and corn shown in *Exhibit 4* and *5*. Without trade East Zakovia would produce at alternative C and West Zakovia would produce at alternative D. Note that the costs of producing tobacco and corn are constant in both countries.

EAST ZAKOVIA'S PRODUCTION POSSIBILITIES TABLE

Product	Alternative					
(tonnes)	A	B	C	D	E	F
Tobacco	20	16	12	8	4	0
Corn	0	4	8	12	16	20

Exhibit 4

WEST ZAKOVIA'S PRODUCTION POSSIBILITIES TABLE

Product	Alternative					
(tonnes)	A	B	C	D	E	F
Tobacco	15	12	9	6	3	0
Corn	0	5	10	15	20	25

Exhibit 5

Based on *Exhibit 4* and *5*,

a) calculate the opportunity cost of tobacco in both countries.

(3 marks)

b) calculate the opportunity cost of corn in both countries.

(3 marks)

c) which country has the comparative advantage in corn production and which country has the comparative advantage in tobacco production?

(2 marks)

d) if each nation specialises in the product where it has a comparative advantage and trades with each other, what will be the limits to the terms of trade for each tonne of tobacco?

(1 mark)

Continued...

e) if the nations do not specialise and trade but remain at alternative C in East Zakovia and D in West Zakovia, how much is the total world production of tobacco and corn?

(2 marks)

f) if the two nations specialise, how much is the total world production of tobacco and corn?

(2 marks)

g) what will be the total gain of tobacco and corn after specialisation?

(2 marks)

[TOTAL 15 MARKS]

Question 3
Part A
In the year 2007, Malaysia economy records the following transactions:

	RM million
Exports of goods and services	2,500
Interest paid to the rest of the world	820
Interest received from the rest of the world	480
Decrease in Malaysia official reserve assets	60
Net exports of goods and services	-90
Net unilateral transfer	-10
Foreign assets owned by Malaysian	350
Malaysia assets owned by foreigners	420

Exhibit 6

Based on *Exhibit 6*,
a) calculate the import of goods and services.

(1.5 marks)

b) calculate the net amount of interest.

(1.5 marks)

c) calculate the current account balance.

(2 marks)

d) calculate the capital account balance.

(1.5 marks)

e) calculate the value for statistical discrepancy.

(3 marks)

Continued...

Part B

a) In each of the following cases, explain its impact on demand for ringgit, supply of ringgit and state whether ringgit will appreciate or depreciate.

i. Because of a financial uncertainty in Malaysia, Malaysians find it is more attractive to buy stock in the neighbouring economy of Singapore.

(2 marks)

ii. Malaysia income levels increase.

(2 marks)

iii. Taiwanese investors decide to build a large manufacturing firm in Melaka, Malaysia.

(2 marks)

b) *Exhibit 7* shows units of Malaysian ringgit per unit of foreign currency in January and April 2009.

Foreign currency	January	April
1 US dollar	3.47	3.56
1 British pound	5.29	5.00

Exhibit 7

Based on *Exhibit 7*,

i. between January and April 2009, did US dollar appreciate or depreciate against Malaysian ringgit? Briefly explain.

(1.5 marks)

ii. calculate the units of British pound per Malaysian ringgit in January and April, 2009.

(3 marks)

[TOTAL 20 MARKS]

End of paper